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ENLARGEMENT OF CLEARING HOUSE FUNCTIONS

BY STANLEY YOUNG, C.P.A.,

Of Arthur Young & Co., C. P. A., and Clearing House Examiner,
Kansas City, Mo.

Though clearing houses have long existed, the fact that these associations were established for one special purpose appears to have clouded the further fact that their existence creates an organization susceptible of uses other than those at first contemplated. Of late years, development has occurred in channels of much importance and it is interesting to note these as indications of possibilities of the future.

To Boston belongs the credit of the first step in enlarging the functions of a clearing house association through the installation of a system for the collection of country items. The example set by Boston has been followed by other clearing houses with results both satisfactory and economical. Under such a system of what may be termed the country clearing house the work of the transit department of each bank is materially reduced. Various rules have been or may be adopted by the individual clearing house, but the main principle is in all cases the same, viz., to effect collection through one channel, with the consequent advantages of saving in rate of exchange, in postage, and in labor; besides control is kept of the disturbing factor of exchange charges. Small items upon which a minimum collection charge would be made are thus collected as a part of a total letter at a large saving through pro rating the exchange charge, as well as through saving in office costs. It need not be pointed out that the power exercised by such an organization, and the pressure that may be brought to bear in lessening charges are great. In consequence strides have been made in the matter of economy in the collection department which would have been impossible for individual banks. In Boston costs have now been brought to a nominal figure and in other centers a large reduction has been made; in Kansas City the cost is now less than half that ruling at inception

of the system in 1905, and a further reduction is being constantly made. Costs are pro rated to each bank, so that each is accurately charged in proportion to the amount of its items. The system has worked admirably and its advantages are obvious, not only in the saving effected but in the control which can be exercised over all exchange questions through the organization now at the disposal of clearing house committee. There are few questions more troublesome than that of exchange and no apology is required for a system and organization which tends to lessen its difficulties.

A movement of greater consequence has been started through the installation of the office of clearing house examiner in many centers, and the credit for this movement belongs to Chicago. Much has been written with regard to the general work of clearing house examinations, but little has yet been said as to the possibility of further development through such an office, more especially with regard to the question of credit information. The original objects sought in the installation of the office were to detect instances of unsound banking in any direction, to note duplications of borrowings by the same client at different banks, and to enable the clearing house to take preventive rather than remedial measures by applying an earlier remedy than is possible for national or state officials, and by such early action to remove unwholesome conditions from any bank in the association. It has long been recognized that no bank can be in unsound condition without hurt to the whole local banking community; the supervision of the clearing house is therefore justifiable and if such supervision be sufficiently close and all irregularities be promptly checked, it becomes possible for the confidence of the public to be restored during any unwarranted run on an individual bank by the announcement of clearing house support; panic may be thus averted, and with the examiner's organization now existing it is practicable for the clearing house as a body to exercise such supervision of any weak bank as to amount to a virtual taking over of its management till it is again in sound condition.

Further possible developments are now becoming apparent. We are but at the beginning of the era of usefulness of such departments, and careful analysis tempts the belief that in the extension thereof may lie a partial solution of many grave difficulties that beset our banking system.

Consider the question of commercial credits. Were our system
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such as obtains in countries where commercial paper takes the form of bills accepted by a strong bank, and where an ultimate market for the discounting of paper is found in a central bank, the position would be different, but we have to deal with conditions as they exist, and the extension of the scope of clearing house departments may develop a national system for disseminating credit information supplementary and superior to any afforded by mercantile agencies, or a bank's own research.

It has unfortunately been the case that banks have extended commercial credits largely upon the strength of the borrowers' own unsupported statements coupled with a certain general knowledge on the part of the bank. The fear of losing what has been profitable business may prevent the banker from insisting upon evidence which his own prudence suggests ought to be given. Every banker has at times extended credit beyond what his own judgment would warrant, fearing that his refusal might result in the loss of a valuable account. He decides to take a certain risk in order to retain what has been profitable business.

If, however, the demand for information be made through an examiner, that is, by the clearing house as a body and not by an individual bank, borrowers cannot refuse satisfaction. Time must elapse before the commercial community recognizes and grows accustomed to such requirements, but in the meantime steps can be taken to improve conditions. Copies of all borrowers' statements and other credit information can be filed with the examiner and all new lines of credit opened can be reported to him; comparison of statements with others listed in his files may lead to suspicion of misrepresentation; and there may be in his possession information showing that the borrower contemplated inadvisable loans. In such a case, the examiner may, with the sanction of his committee, instruct the borrower to reduce his operations. By thus eliminating unwholesome bidding for business by the extension of unwarranted credits, much can be done to improve the banking situation.

The experience of Kansas City shows that it is feasible to gather valuable credit data; all large borrowers are indexed and observed, and facts as to their total local obligations are quickly available upon request for any interested member of the association. This, however, is insufficient; the enormous extent of the floating of paper through brokers renders the obligations too widespread for

control by any one association. We must look to further methods, to more stringent demands through the examiner and to co-operation among clearing house associations.

There seems no reason why a clearing house official should not insist upon the evidence of a certificate of certified public accountants; unfortunately, the principle is not yet firmly established of requiring all borrowers to furnish such certificates though the desirability of this is becoming increasingly appreciated. It does not seem too much to hope that in future borrowers shall be required to file with the clearing house examiner such certified statements together with all further evidence of their responsibility, the whole information being confidential with the examiner, but to be imparted by him to any bank interested in the borrower; the examiner being careful to determine the rights of the bank seeking information before this is afforded. The chief point to observe is that insistence upon such evidence of merit in the extension of credit can be effected through a clearing house official with better grace and with more certain results than through an individual bank.

We must look also to co-operation among clearing house associations. Where independent audit has been made and a report is on file with one association, an interchange of courtesies would render this available for all financial centers. The advantages of clearing house examinations and credit bureaus are now so well realized that it seems not unlikely they may shortly be almost universal and the interchange of information with other associations should prove an important feature of the work.

Further, the suggestion has frequently been made that commercial paper be registered. Should this become the general practice, and be made a necessary step in floating paper, it would seem wise that the registrar should be the clearing house of the center in which the head office of the concern is located; and that confidential information be thence afforded to other clearing houses. It is obvious that the organization afforded by clearing house offices of this nature could enormously improve the knowledge of any borrower's standing; the gathering in one credit office of all local information, of all facts learned by other clearing house officers, of records as to registered paper outstanding, and of accountants' reports—these together would afford banks data beyond anything yet acquired through mercantile agencies or through individual

research. In this, exists the germ of a national credit bureau of high efficiency.

What is true of commercial paper is no less true of individual credits and of country-bank or rediscounted paper. Over-trading by a firm or a bank has long been regarded as a menace; the short experience of concerted action by clearing houses has already revealed methods of control.

No remarks upon extension of clearing house functions would be complete without reference to currency associations. Much has been written on the matter and it would be out of place to enter here upon full discussion of so large a subject. One serious objection to our present banking system is the fact that our commercial paper is not a liquid asset; and whilst this fact remains, constant occasions will arise wherein the clearing house must take action. It need only be asserted that it is the duty of our clearing houses to see (1) that steps are taken to insure that arrangements become operative during and not after an emergency; (2) that methods are adopted looking to what may be regarded as a general clearing house for the country as a whole. The pooling of reserves and conversion of paper into liquid assets are insufficient remedies unless made more than local; otherwise we merely have a selfish effort on the part of each center to fortify itself at the expense of other localities.

It would seem possible, by co-operation of clearing houses and the government, to solve this problem of converting commercial paper into liquid assets. The present bond-secured individual national bank currency might be replaced by a uniform currency, and this currency used under proper restrictions in emergencies under joint control of the government and clearing house association. By this means not only would there be a large saving to the government and the banks in the present costly process of the printing and redemption of individual bank currency; but the issuance of a familiar currency in place of an emergency issue of special design in times of stress would tend to preserve confidence. The control of such currency and its method of issue when effected through clearing houses would call for careful attention; but the principal fact to be insisted upon is that it is the duty of our clearing houses to see that so long as our present situation as regards assets and currency remains such as not to operate effectively in time of stress, we shall

at least have ready an emergency remedy. This is a function our clearing houses cannot afford to overlook.

The principle lying at the root of all future clearing house development is that of the unity of interest of all banks. So long as each bank regards all others only as competitors, and makes its own advancement and prosperity the one object to be attained, banking will not reach its highest development and efficiency. Banking is not and ought not to be an occupation merely for its profits. It should be placed on the same basis as other professions; the highest development in medicine or law is attained only when the competitive and money making features are to a certain extent eliminated, and when mutual confidence is shown between the members of the profession. The banking community is an organic whole, no member of which can suffer without detriment to the body. Our progress depends upon a realization of this truth.